

STATE BUDGET AND CONTROL BOARD

REGULAR SESSION

MEETING OF June 17, 2008

ITEM NUMBER 3AGENCY: General Services DivisionSUBJECT: Department of Health and Human Services Lease

The Department of Health and Human Services (HHS) requests approval to continue leasing from AMOMMARC I, LLC and AAC Columbia Limited Partnership (Landlord), 145,831 square feet in the basement, mezzanine and "arcade" areas and all 14 floors of the Jefferson Square building located at 1801 Main Street in Columbia. The leased space will house all administrative offices of HHS. HHS' current lease at the location expires June 30, 2008. As a result of negotiations, HHS will save at least \$652,000 in the first year of the new lease compared with the current lease with Landlord.

The lease term will be five years commencing on July 1, 2008. Rent will be \$182,288.75 per month or \$2,187,465.00 per year (\$15.00 per square foot annually) for the first year of the lease. Thereafter, rent increases by \$0.25 per square foot annually. Comparables of similar state agency office space leased in the Columbia area are as follows:

| Lease Date | Agency/Location | Rate |
|------------|-----------------------------------------------------------|----------|
| 03/06 | Lottery Commission 1333 Main Street | \$ 15.00 |
| 01/02 | Worker's Compensation Commission 1612 Marion Street | \$ 16.25 |
| 10/07 | Commission on Indigent Defense 1330 Lady Street | \$ 16.50 |

HHS will continue to lease parking spaces for its employees in the parking garage located adjacent to the leased building. The rate under the new lease for parking will be \$188,573.88 annually for the use of 464 parking spaces. HHS will recoup up to \$55,680 of this cost from its employees. Landlord will provide up to \$364,577.50 in renovations over the term of the lease. HHS is not responsible for any additional costs above the rent and parking fees to be paid. No option to purchase the property is included in the lease.

Operating cost increases are capped at five percent per year, beginning with the first year of the lease. Assuming operating expenses increase at five percent per year, the maximum rent over the term of the lease is as follows:

| Year | Date | Base | Operating | Rate/SF | Rent | Rent & Parking |
|------|---------|------|-----------|---------|-----------------|-----------------|
| 1 | 7/1/08 | 7.42 | 7.96 | 15.38 | 2,242,880.78 | 2,431,454.66 |
| 2 | 7/1/09 | 7.67 | 8.36 | 16.03 | 2,337,670.93 | 2,526,244.81 |
| 3 | 7/1/10 | 7.92 | 8.78 | 16.70 | 2,435,377.70 | 2,623,951.58 |
| 4 | 7/1/11 | 8.17 | 9.21 | 17.38 | 2,534,542.78 | 2,723,116.66 |
| 5 | 7/1/12 | 8.42 | 9.67 | 18.09 | 2,638,082.79 | 2,826,656.67 |
| | Total | | | | \$12,188,554.98 | \$13,131,424.38 |
| | Average | | | \$16.72 | \$2,437,711.00 | \$2,626,284.88 |

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ITEM NUMBER 3, Page 2

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HHS has adequate funds for the lease according to a Budget Approval Form submitted April 23, 2008, which also includes a multi-year plan. Lease payments will be made from state appropriations; federal funding from the US Department of Health and Human Services; and funds collected from overpayments, fraud and abuse, and third party liability used to offset administrative costs as authorized by legislative provisos.

The space allocation of the new lease is 86,970 square feet for staff. Space is allocated for 549 employees. The remaining 58,861 square feet is to be utilized for storage, conference rooms, reception area, work areas, library, break room, computer server area and common areas. The building was constructed in or around 1970.

The lease was approved by Emma Forkner, Director of HHS and by Riprand Count Arco, Managing Member of AMOMMARC I, LLC and General Partner of AAC Columbia Limited Partnership. JBRC approved the lease at its June 4, 2008 meeting.

BOARD ACTION REQUESTED:

Approve the proposed five year lease for the Department of Health and Human Services at 1801 Main Street in Columbia.

ATTACHMENTS:

Agenda item worksheet; Letter from HHS dated May 19, 2008; SC Code of Laws Sections 1-11-55 and 1-11-56

BUDGET AND CONTROL BOARD AGENDA ITEM WORKSHEET

Meeting Scheduled for: June 17, 2008

Regular Agenda

1. Submitted by:

- (a) Agency: General Services Division
- (b) Authorized Official Signature:


M. Richbourg Roberson, Director

2. Subject: Department of Health and Human Services Lease

3. Summary Background Information:

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- 4. What is the Board asked to do?** Approve the proposed five year lease for the Department of Health and Human Services at 1801 Main Street in Columbia.
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- 5. What is recommendation of the General Services Division?** Approval of the proposed lease.
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6. List of Supporting Documents:

- (a) Letter from HHS dated May 19, 2008
- (b) SC Code of Laws Sections 1-11-55 and 1-11-56



State of South Carolina
Department of Health and Human Services

Mark Sanford
Governor

Emma Forkner
Director

May 19, 2008

Mr. M. Richbourg Roberson, Director
General Services Division
South Carolina Budget and Control Board
1201 Main Street, Suite 420
Columbia, South Carolina 29201

Dear Mr. Roberson:

As you are aware, Regulation 19-447.1000 requires that leases, which commit one million dollars or more in a five-year period, be approved by the Budget and Control Board and reviewed by the Joint Bond Review Committee.

The South Carolina Department of Health and Human Services (SCDHHS) administers the South Carolina Medicaid Program, which provides health care coverage for about one quarter of the population of South Carolina. The administrative offices of SCDHHS have been housed in leased office space at the current location at 1801 Main Street since August 14, 1984. The current lease expires June 30, 2008.

SCDHHS in coordination with General Services Division, Real Property Services, initiated two competitive solicitations for available space to lease in February 2007 and October 2007, in order to determine whether other suitable commercial office space alternatives were available and to obtain the best value for the State. After reviewing the proposals submitted as a result of these solicitations, SCDHHS has determined that none of the proposed sites would be as suitable in accommodating the needs of the agency as the present site and hereby requests the approval of a lease to remain at our current location at 1801 Main Street through the negotiated lease term.

The proposed lease with Jefferson Square Joint Venture is to begin July 1, 2008 for a term of five years with an expiration date of June 30, 2013. The basic rental rate begins at \$15.00 in the first year and increases \$0.25 each year thereafter. Annual basic rent in the first year will be \$2,187,465. SCDHHS will additionally pay \$15,714.49 monthly for parking, approximately \$4,640 of which will be recouped from our employees occupying such parking spaces.

Mr. M. Richbourg Roberson, Director
May 19, 2008
Page Two

General Services Division has negotiated a lower rate with the landlord resulting in a significant cost savings for the agency in the first year of the lease of over \$652,000.

The state's process is designed to meet the requirements of Regulation 19-447.1000 and the proposed lease terms and conditions are consistent with the State's standard lease terms. Adequate funds are available within the agency's budget, and a financial plan has been submitted.

Therefore, I respectfully request that the proposed lease with Jefferson Square Joint Venture be approved by the Budget and Control Board.

Sincerely,

A handwritten signature in black ink, appearing to read "Emma Forkner". The signature is fluid and cursive, with the first name "Emma" being more prominent than the last name "Forkner".

Emma Forkner
Director

EF/jym

SECTION 1-11-55. Leasing of real property for governmental bodies.

(1) "Governmental body" means a state government department, commission, council, board, bureau, committee, institution, college, university, technical school, legislative body, agency, government corporation, or other establishment or official of the executive, judicial, or legislative branches of this State. Governmental body excludes the General Assembly, Legislative Council, the Office of Legislative Printing, Information and Technology Systems, and all local political subdivisions such as counties, municipalities, school districts, or public service or special purpose districts.

(2) The Budget and Control Board is hereby designated as the single central broker for the leasing of real property for governmental bodies. No governmental body shall enter into any lease agreement or renew any existing lease except in accordance with the provisions of this section.

(3) When any governmental body needs to acquire real property for its operations or any part thereof and state-owned property is not available, it shall notify the Office of General Services of its requirement on rental request forms prepared by the office. Such forms shall indicate the amount and location of space desired, the purpose for which it shall be used, the proposed date of occupancy and such other information as General Services may require. Upon receipt of any such request, General Services shall conduct an investigation of available rental space which would adequately meet the governmental body's requirements, including specific locations which may be suggested and preferred by the governmental body concerned. When suitable space has been located which the governmental body and the office agree meets necessary requirements and standards for state leasing as prescribed in procedures of the board as provided for in subsection (5) of this section, General Services shall give its written approval to the governmental body to enter into a lease agreement. All proposed lease renewals shall be submitted to General Services by the time specified by General Services.

(4) The board shall adopt procedures to be used for governmental bodies to apply for rental space, for acquiring leased space, and for leasing state-owned space to nonstate lessees.

(5) Any participant in a property transaction proposed to be entered who maintains that a procedure provided for in this section has not been properly followed, may request review of the transaction by the Director of the Office of General Services or his designee.

SECTION 1-11-56. Program to manage leasing; procedures.

The State Budget and Control Board, in an effort to ensure that funds authorized and appropriated for rent are used in the most efficient manner, is directed to develop a program to manage the leasing of all public and private space of state agencies. The board's regulations, upon General Assembly approval, shall include procedures for:

(1) assessing and evaluating agency needs, including the authority to require agency justification for any request to lease public or private space;

(2) establishing standards for the quality and quantity of space to be leased by a requesting agency;

(3) devising and requiring the use of a standard lease form (approved by the Attorney General) with provisions which assert and protect the state's prerogatives including, but not limited to, a right of cancellation in the event of:

(a) a nonappropriation for the renting agency,

(b) a dissolution of the agency, and

(c) the availability of public space in substitution for private space being leased by the agency;

(4) rejecting an agency's request for additional space or space at a specific location, or both;

(5) directing agencies to be located in public space, when available, before private space can be leased;

(6) requiring the agency to submit a multi-year financial plan for review by the board's budget office with copies sent to Ways and Means Committee and Senate Finance Committee, before any new lease for space is entered into; and requiring prior review by the Joint Bond Review Committee and the requirement of Budget and Control Board approval before the adoption of any new lease that commits more than one million dollars in a five-year period; and

(7) requiring prior review by the Joint Bond Review Committee and the requirement of Budget and Control Board approval before the adoption of any new lease that commits more than one million dollars in a five-year period.

